Required Report - public distribution

Date: 8/31/2011
GAIN Report Number:

Uruguay

Livestock and Products Annual

2011

Approved By:
Brooke Markley

Prepared By:
Maria Julia Balbi

Report Highlights:
Data included in this report is not official USDA data. Official USDA data are available at: http://www.fas.usda.gov/psdonlineonline.

With cattle stocks decreasing slightly and reduced slaughter numbers, Uruguay's beef production is forecast to continue its downward decline to 538,000 MT in CY 2012. Both cattle and beef exports as well as domestic consumption of beef are expected to also decline slightly in CY 2012 from the previous year.

Executive Summary:

Uruguay's beef exports for 2012 are estimated to decrease to 340,000 MT, down slightly from CY 2011, as a result of smaller production. Exports in CY 2011 are projected to remain stable, despite smaller production, due to strong international demand. Cattle stocks in CY 2012 are forecast to virtually remain stable, compared to the previous year, and they are expected to decrease to 11.1 million head in CY 2011 primarily due to large cattle exports. Beef production is estimated to decrease to 535,000 MT in CY 2012 as a result of reduced slaughter, and domestic consumption is projected to decrease marginally to 198,000 MT as Uruguayans will continue to eat large volumes of beef (they are the largest per capita beef consumers in the world).

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Select

Production:

In CY 2011 and 2012, beef production will continue its slight decline due to reduced slaughter. It is estimated to decrease to 545,000 MT and 535,000 MT, respectively, compared to CY 2010. Beef production in CY 2010 remained unchanged, compared to previous USDA official estimates. The drop off in production in CY 2011 and CY 2012 was a consequence to the severe drought that affected the country in 2008-2009.

Slaughter is projected to decrease to 2.15 million head in CY 2011 and 2.1 million head in CY 2012 due to reduced stock as a result of the 2008-2009 drought, and large cattle exports, which are expected to drop precipitously from CY 2010 to 2011. Both producers and the industry will be expected to be very cautious about making decisions which would cause stock liquidation, i.e. increasing slaughter does not seem to be a sustainable measure for the livestock sector in Uruguay. Producers are expected to be very cautious and retain their cattle unless there is a severe drought or a serious financial situation which would force them to sell their animals. Slaughter in CY 2010 decreased to 2.2 million head, down 99,000 head, compared to previous USDA official estimates, primarily due to a rebound of cattle exports, primarily to Lebanon and Turkey.

Beef production in Uruguay has been traditionally aimed at supplying export markets, which account for about 65 percent of total production. Feedlot production accounts for around 8-10 percent of total slaughter, and it is expected to increase marginally as larger meat packing plants are incorporating feedlots to their operations, and there will be larger grain supply due to the expansion of agriculture in the country. Currently, there are about 25 feed lot operations in Uruguay. Traditional feedlot production is not expected to expand significantly as use of anabolics and hormones is forbidden throughout the country and, so far, long-standing government promotion policies continue to be aimed at intensifying grass-fed cattle production to expand exports. Uruguay is gradually becoming a grain producer, thus, domestic grain prices will decrease fostering grain supplementation of cattle, which several sources believe is the key to the expansion of the livestock sector in Uruguay. High-value beef cuts produced in feedlot operations area mainly exported since the domestic market cannot afford them.

Investment

The strong sanitary condition of Uruguay's cattle, and reduced cattle supply in other beef producing countries, have created opportunities for Uruguayan livestock producers, who have been investing strongly in feed grain production, and improved herd management techniques (e.g. the decrease of slaughter age of cattle). During the past few years, livestock production has been rapidly losing area to field crops (mainly soybean crops) and forestry to a lesser extent, forcing livestock production to become more intensive. Investment in pastures has been decreasing rapidly during the past few years, especially after the drought of 2008-2009, as more land was devoted for crop production.

Private investments have also contributed to the higher efficiency through the gradual expansion towards a more intensive livestock production system. Despite the lack of pastures, producers took advantage of grain availability at reasonable prices as a result of the expansion of field crops in the country.

In addition, significant investments have been made by the industry to expand deboning and cold storage facilities in meat packing plants. (Total slaughter capacity is estimated between 3.5-3.8 million head on an annual basis.) During the past few years, the local meat packing industry have also invested in feedlot cattle production to assure ownership of part of their fed cattle supply for slaughter. The favorable conditions for livestock production in Uruguay have also attracted foreign investors, mainly from Brazil, who purchased several meat packing plants. Private sources estimate that about 45 percent of Uruguayan meat plants are owned by Brazilian capital and 10-15 percent by Argentine capital. Currently, there are no meat packing plants in Uruguay owned by U.S. investors. One modern meat plant with British investment began to operate in CY 2010. Due to high cattle prices, which foster cattle exports, small and medium-size meat plants are facing a very difficult situation to continue operating.

Cattle prices in U.S. dollar terms have reached historical record levels. Thus, fed cattle for slaughter are strongly competing with live cattle for the export market. In addition, some producers prefer to rent the land to foreign investors, who pay high prices per hectare to plant soybeans, instead of continuing to invest in the livestock sector, which is making livestock production increasingly intensive.

The recent GOU proposal to tax farm operations with over 2,000 hectares could discourage investment in Uruguay's agricultural sector, both in crop and livestock production. Between 2,000 and 4,999 hectares, the producer should pay $8/hectare; between 5,000 and 9,999, $12/hectare; and for over 10,000 hectares, $16. The impact of this proposal is causing uncertainty among producers. High production costs, especially fertilizers, cattle feed rations, labor, and energy - although partially offset by high cattle prices - also discourage investment in the livestock activity, and urge producers to shift to crop production which is more profitable.

Consumption:

Beef domestic consumption for CY 2011 and 2012 is forecast to decrease only marginally to 202,000 MT and 198,000 MT, respectively, compared to CY 2010, due to smaller production. Due to the recuperation of the purchasing power, Uruguayans are expected to continue eating large volumes of beef. All beef cuts are consumed in Uruguay, although the rib plate is the most popular cut. However, there is a stronger demand for cheaper forequarter cuts.

Annual per capita beef consumption is estimated at approximately 60 kg. Beef is primarily consumed in urban areas, and lamb is preferred in rural areas, although higher-value lamb cuts are becoming more popular by urban dwellers. During the past few years, annual per capita chicken consumption has increased from 10 to 20 kg, as it is cheaper than beef, although domestic prices have been gradually increasing. Annual per capita pork consumption is 9 kg., lamb consumption is 6-7 kg., and fish is relatively low and too expensive to compete with beef. Estimated comparative beef prices are as follows: tenderloin, $22/kg; sirloin steak, $12; eye-of-round, $10/kg; and chicken, $3/kg. More affluent consumers buy beef cuts in supermarkets (40-45 percent market share), while consumers with a lower purchasing power buy in butcher shops (55-60 percent market share). Butcher shops tend to remain popular in the suburbs of Montevideo and the interior of the country as more women are being incorporated into the workforce and they prefer to buy all types of food products at the supermarket, including beef, making a more efficient use of time.

Trade:

Uruguay's beef exports for CY 2012 are estimated to decrease to 340,000 MT, down slightly from CY 2011, as a result of smaller production. Exports are projected to remain stable in CY 2011, despite smaller production, due to strong demand from export markets. Beef exports for CY 2010 remained stable at 347,000 MT, compared to previous USDA official estimates.

Uruguay has benefited greatly from its sanitary status compared to its neighboring competitors, Brazil and Argentina, whose beef is still prohibited entry into the U.S. due to Foot-and-Mouth Disease (FMD). In addition, the Government of Argentina (GOA) continues its policy of beef export restrictions with the intent of lowering beef domestic prices. All of these factors created unprecedented opportunities to Uruguayan beef exports which in CY 2010 were lower in volume than the previous year, totaling 347,000 MT (CWE), but higher in value, reaching $1.13 billion. The average beef price per MT was $ 3,082 in 2010, compared to $2,486 in 2009. During the period January-July 2011, the average price per MT was $3,934.

Following the FMD crisis in April 2001, most export markets have reopened for Uruguay's fresh boneless beef, beginning with the European Union (EU) and Israel in November 2001, followed by Canada in January 2003, and the U.S. in May 2003. After active negotiations during four years between sanitary authorities of Uruguay and Mexico, the Mexican market reopened in August 2006. In January 2007, it was closed again due to a labeling problem, and reopened in May 2007. The Asian high-value beef markets, Japan and Korea, remain closed. Uruguayan animal health authorities continue negotiating the opening of the Korean beef market. Japan is not expected to resume imports from Uruguay while the country continues vaccinating against FMD. Uruguay will not drop vaccinating until the region is free of FMD. To date, over 100 markets are open to Uruguay's beef products.

During January-July 2011, Russia remained the primary destination in volume for Uruguayan beef with a market share of 34.6 percent, and the EU continued to be the primary destination in value accounting for 31.2 percent of the total market. Private sources estimate that exports to Russia will continue to expand as the country is focusing on promoting pork and poultry production, but not beef production. The U.S., which had been the number one market for Uruguayan fresh boneless beef since the reopening of the U.S. beef market in 2003 after reaching 47 percent in CY 2007, dropped in market share to 8 percent in CY 2010, and increased to 10.1 percent in January-July 2011. This resulted from the reorientation of exports to Russia, which became a major beef export market for Uruguay as it paid higher prices than the U.S. The main beef cuts exported to the U.S. in 2010 were frozen fore and hindquarters, and trimmings.

In 2010, due to higher prices paid by other export markets, Uruguay filled only 15,000 MT of the 20,000 MT U.S. beef tariff-rate quota, which pays a low in-quota duty (imports in excess of the 20,000 MT pay a 26.4-percent duty). In CY 2011, it is estimated that Uruguay will again fail to fill the U.S. quota. As in past years, Uruguay has filled completely its 6,300 MT share of the Hilton beef quota for export to the EU.

Uruguay's primary beef export destinations are illustrated below:
(MT-CWE)

Country	**2010**	**Market Share %**
Russia	113,812	32.8
United States	29,085	8.4
Chile	18,264	5.3
Israel	17,636	5.1
United Kingdom	16,294	4.7
Brazil	14,728	4.2
Spain	14,700	4.2
Netherlands	11,907	3.4
Canada	11,107	3.2
Venezuela	11,004	3.2
Italy	10,773	3.1
Germany	8,107	2.3
China	7,932	2.3
Hong Kong	6,712	1.9
Algiers	4196	1.2
Other	51,045	14.7
TOTAL	347,302	100

Source: FAS Buenos Aires based on statistical data from the Global Trade Atlas

Cattle exports for CY 2012 are forecast to decrease to 210,000 head, down 10,000 head from the previous year, as they will compete with the local industry which will need fed cattle for slaughter to supply the international demand. Cattle exports for CY 2011 are estimated to decrease drastically to 220,000 head, compared to CY 2010, primarily due to competition with the industry. Moreover, private sources and local media reported that the GOU has been delaying export permits for cattle as a measure to protect the bovine stock. The GOU stated that the delay is due to strict sanitary inspections that the Ministry of Agriculture is carrying out. These types of measures might discourage future investments in times when the bovine stock needs support to recuperate. The rebound of Uruguayan cattle exports in CY 2010 and the first semester of CY 2011 was due to tight supplies in most beef producing countries, which increased international cattle prices. Most sources agree that it is not sustainable for Uruguay's livestock activity to continue exporting such large quantities of cattle like in CY 2010, when 385,000 head were shipped to foreign markets, primarily Lebanon and Turkey. Turkey reduced the import tariff for cattle to zero, and increased the tariffs for beef cuts, which made Uruguay's beef exports unlikely.

In CY 2010, the major export markets for live cattle, mainly for slaughter, were Lebanon (53 percent market share), and Turkey (32 percent). Other markets were: Jordan, Syria, China, Egypt, Brazil, Tunisia, and Paraguay. During the first quarter of 2011, Turkey became the first largest market for Uruguayan cattle.

Uruguay is a traditional beef exporting country. Thus, beef imports will remain negligible. In CY 2010, Uruguay imported very small volumes of beef primarily from Brazil, as a result of high domestic beef prices.

Uruguay continues to ban imports of U.S. beef and beef products due to BSE-related restrictions. Local importers are particularly interested in gaining access to beef sweetbreads from the U.S.

Stocks:

Cattle stocks in CY 2012 are projected to remain stable, compared to the previous year, after a slight decrease to 11.1 million head in CY 2011 as a result of large cattle exports in CY 2010. Cattle stocks decreased in CY 2010 due to reduced calf production as a result of the severe drought in 2008-2009, which negatively affected pregnancy rates, and high cattle demand from export markets.

Policy:

Uruguay's export rebate for all beef cuts is 2.5 percent. As a Mercosur member, Uruguay applies the Common External Mercosur Tariff, which ranges between 3 and 23 percent for food products. In general terms, intra-Mercosur trade pays a zero tariff.

Uruguay has submitted to the EU the certification protocol for the country to apply to export under the additional 20,000 MT quota of high-quality free-of-hormone beef (which will turn into 45,000 MT as of 2012/13) at zero import tariff, that the EU opened up for third-country suppliers under the beef hormone dispute agreement between the U.S. and EU. Private sources estimate that access to the quota will be granted before the end of the current calendar year. There are differing views in the private sector regarding how this quota could impact the Uruguayan livestock sector: some believe that it will have a significant impact while others think that the impact will be negligible as Uruguay will be unable to compete with other quota holders, such as the U.S. and Australia.

The GOU has requested access to a new high-value beef quota with a preferential import tariff granted by Switzerland, and is currently finalizing a sanitary certificate that will be soon proposed to the Swiss animal health authorities. This quota applies to high-value beef cuts from cattle which were finished in feedlots on grain for 100 days.

The GOU is supporting the incorporation of Russia to the World Trade Organization (WTO), and will simultaneously negotiate to maintain Uruguay's beef exports to Russia. Uruguay is ranked between the second and third beef supplier to Russia. The main supplier is Brazil.

In July 2010, a new regulation was implemented by the Ministry of Livestock, Agriculture, and Fisheries of Uruguay (MGAP, in Spanish), which regulates feedlot operations in the country. The standards refer to feedlot facilities, residue control and handling, and animal health and feed programs. The regulation also includes a traceability system for cattle bred under this system. One of the goals of MGAP is to encourage feedlot producers to meet the new regulations as soon as possible in order to comply with the EU certification protocol for Uruguay to apply for export under the additional 20,000 MT quota of high-quality hormone-free beef. For that purpose, in July 2011, a National Registry for feedlot producers was created and the GOU will carry out sanitary inspections to approve them for export under this quota. It is estimated that about 50 companies will be registered.

In March 2009, through Law No. 18,471, the GOU created the Honorary National Commission of Animal Welfare, whose main goal is to control that the standards of care, protection and respect towards animals are met. In 2010, under that framework, the Uruguayan National Meat Institute (INAC, in Spanish) designed an animal welfare certification program focused on bovine animals. In addition, they implemented a monitoring system, called "Black Boxes", which consists of the installation of electronic equipment in all slaughter plants, aimed at facilitating traceability, providing information on yields to the producer, preventing tax evasion, and fostering rapid access to information on the livestock sector. Virtually, all slaughter is, at the present time, being monitored through the "Black Boxes" system.

In September 2006, the GOU put in force a mandatory cattle identification program using electronic devices financed by the GOU with the purpose of facilitating traceability, in order to meet new requirements that will be implemented by the primary world beef export markets. Currently, virtually all cattle are identified in Uruguay.

Sanitary Situation

The GOU has made great efforts to achieve the total eradication of FMD, whose last outbreak was detected in August 2001. Vaccination for all cattle will continue in 2011, and will not stop until there is a guarantee that the disease is under control throughout the region. A Permanent Veterinary Committee, composed of members from the Veterinary Services of the Governments of Argentina, Brazil, Bolivia, Chile, Paraguay, and Uruguay, was created in 2003 as a tool to anticipate and overcome difficulties resulting from FMD occurrence. Member countries meet on a regular basis to discuss regional sanitary issues.

Marketing:

Cattle and Beef Prices

Cattle prices rebound in CY 2011, compared to the previous year, with the average record price of $2.13/kg for live steer in July 2011, and are expected to remain relatively high in CY 2012. This increase was primarily due to reduced cattle supply in other countries, as well as the very good sanitary conditions of the country. In CY 2010, cattle prices recuperated from lower prices the previous year, as a result of tight cattle supply. Beef prices in CY 2010 increased, compared to the previous year, reaching the highest average price of $3.29/kg. In January-July 2011, prices rebound to higher that the record price of $4.11/kg. For CY 2012, prices are expected to increase as a result of small supply in other beef producing countries and sustained international demand.

During the past few years, INAC has played a key role in developing various projects which help differentiate Uruguayan beef in international markets. Among the primary marketing initiatives carried out on an annual basis is the organization of promotional activities and trade missions to several countries, and participation in major food shows, such as ProdExpo in Moscow, SIAL China, and Anuga.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Uruguay	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	11,828	11,828	11,088	11,179		11,109
Dairy Cows Beg. Stocks	350	350	350	350		350
Beef Cows Beg. Stocks	4,000	3,900	4,000	3,950		4,000
Production (Calf Crop)	2,100	2,300	2,870	2,600		2,600
Intra-EU Imports	0	0	0	0		0
Other Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	13,928	14,128	13,958	13,779		13,709
Intra EU Exports	0	0	0	0		0
Other Exports	227	385	185	220		210
Total Exports	227	385	185	220		210
Cow Slaughter	1,080	1,158	1,080	1,045		1,020
Calf Slaughter	20	13	20	15		15
Other Slaughter	1,203	1,033	1,210	1,090		1,065
Total Slaughter	2,303	2,204	2,310	2,150		2,100
Loss	310	360	300	300		260
Ending Inventories	11,088	11,179	11,163	11,109		11,139
Total Distribution	13,928	14,128	13,958	13,779		13,709
1000 HEAD, PERCENT						

Not Official USDA data.

Meat, Beef and Veal Uruguay	2010		2011		2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2,303	2,204	2,310	2,150		2,100
Beginning Stocks	0	0	0	0		0
Production	565	565	565	545		535
Intra-EU Imports	0	0	0	0		0
Other Imports	0	0	0	2		3
Total Imports	0	0	0	2		3
Total Supply	565	565	565	547		538
Intra EU Exports	0	0	0	0		0
Other Exports	347	347	350	345		340
Total Exports	347	347	350	345		340
Human Dom. Consumption	218	218	215	202		198
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	218	218	215	202		198
Ending Stocks	0	0	0	0		0

Total Distribution	565	565	565	547		538
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						

Not Official USDA data.